

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 IO-14 ISO-00 AID-05 CIAE-00 EB-08
FRB-01 INR-10 NSAE-00 ICA-20 XMB-04 OPIC-06 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01
PA-02 (ISO) W
-----127063 261657Z /64

R 261507Z MAY 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 6547
TREASURY DEPT WASHDC
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL BELFAST
AMCONSUL EDINBURGH
USMISSION GENEVA
USDOC WASHDC

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USEEC ALSO FOR EMBASSY
USOECN ALSO FOR EMBASSY
USMTN

DEPARTMENT PASS FEDERAL RESERVE BOARD; TREASURY FOR
DONALD E. SYVRUD, OASIA

E.O. 11652: N/A
TAGS: ECON, UK
SUBJECT: HEALEY CONTINUES IMF STANDBY

1. THE CHANCELLOR OF THE EXCHEQUER TOLD THE HOUSE OF
COMMONS THAT HE HAD WRITTEN TO THE IMF TO REAFFIRM
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THE TARGETS SPECIFIED IN LAST APRIL'S BUDGET AND TO
REQUEST A SEVEN-MONTH EXTENSION OF THE U.K.'S STANDBY
CREDIT. THE MOVE WAS GENERALLY EXPECTED. THE STANDBY
EXPIRES JANUARY 2, 1979.

2. CHANCELLOR HEALEY'S LETTER, RELEASED TO THE PRESS
MAY 25, READS: QUOTE

DEAR MR. WITTEVEEN:

IN MY LETTER TO YOU OF DECEMBER 15, 1976, I INDICATED THAT I EXPECTED DOMESTIC CREDIT EXPANSION TO BE KEPT TO 6 BILLION POUNDS IN THE 12 MONTHS ENDING APRIL 18, 1979. IN ADDITION, I EXPECTED THE PUBLIC SECTOR BORROWING REQUIREMENT FOR 1978-79 NOT TO EXCEED THE FIGURE OF 8.6 BILLION POUNDS AND SINCE PRESENTING MY BUDGET, I HAVE COMMITTED MYSELF TO A PUBLIC SECTOR BORROWING REQUIREMENT OF 8.5 BILLION POUNDS.

"IN MY LETTER TO YOU OF DECEMBER 14, 1977, I STATED MY INTENTION TO REVIEW POLICIES FURTHER WITH THE FUND ON THE OCCASION OF THE NORMAL CONSULTATION DURING MAY 1978. I HAVE NOW UNDERTAKEN THIS REVIEW AND CONCLUDED THAT THESE AMOUNTS ARE ADEQUATE TO ACHIEVE THE DESIRED ECONOMIC RECOVERY, AND TO MEET THE PROSPECTIVE FINANCIAL REQUIREMENTS OF INDUSTRY FOR INVESTMENT AND EXPANSION. YOURS SINCERELY, DENIS HEALEY. END QUOTE.

3. CHANCELLOR HEALEY RESERVED HIS ANNOUNCEMENT OF THE LETTER UNTIL HE WAS UNDER OPPOSITION ATTACK IN THE COMMONS OVER TREASURY POLICY. HE STATED, "WE HAVE THE CONFIDENCE OF THE IMF. WE HAVE HAD IT FOR 18 MONTHS. WE SHALL CONTINUE TO MAINTAIN IT FOR UNCLASSIFIED

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THE NEXT 18 MONTHS."

4. THE CHANCELLOR ALSO DEFENDED THE GOVERNMENT'S MONETARY POLICY. HE CONCEDED THAT LAST YEAR'S GROWTH OF STERLING M3 WAS BEYOND THE GOVERNMENT'S TARGETED

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FRB-01 INR-10 NSAE-00 ICA-20 XMB-04 OPIC-06 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01
PA-02 /131 W

-----126098 261530Z /64

R 261507Z MAY 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 6548
TREASURY DEPT WASHDC
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
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RANGE, BUT SAID THE GOVERNMENT WAS PREPARED TO TAKE
WHATEVER FISCAL AND MONETARY MEASURES WERE NECESSARY
TO ACHIEVE THE CURRENT 8-12 PERCENT TARGET. HE LISTED
FIVE DIFFICULTIES WHICH HAD RECENTLY AFFECTED MONETARY
GROWTH:

- A) EXCESSIVE INFLOWS OF FOREIGN CURRENCY HAD
BEEN REVERSED.
- B) LAST-MINUTE EXPENDITURE INCREASES BY SPENDING
DEPARTMENTS IN ORDER TO MINIMIZE LAST YEAR'S
PUBLIC SECTOR SPENDING SHORTFALL RAISED APRIL
PUBLIC SECTOR BORROWING. THIS SHOULD TAPER OFF.

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- C) INSTITUTIONS HAVE BUILT UP VERY HIGH LEVELS OF
LIQUIDITY, STAYING OUT OF THE GILT MARKET.
- D) ALTHOUGH THE GOVERNMENT HAD ALLOWED A SUBSTANTIAL
INCREASE IN INTEREST RATES SINCE THE EXCESS
MONEY SUPPLY GROWTH BECAME KNOWN, THE EFFECTS
OF THIS HAVE NOT YET BEEN FELT.
- E) THERE HAD BEEN SOME WINDOW DRESSING BY THE
CLEARING BANKS, ANTICIPATING THE INTRODUCTION
OF THE CORSET (I.E., QUANTITATIVE CONTROLS ON
THE GROWTH OF INTEREST-BEARING LIABILITIES TO
DAMPEN BIDDING FOR INTERBANK DEPOSITS AND THE
ISSUE OF CDS.)

5. PRIME MINISTER CALLAGHAN EXPRESSED THE SAME

SENTIMENTS IN THE HOUSE. HE SAID: "I AM NOT GOING TO HAVE THE GREAT SUCCESS WE HAVE HAD ON INFLATION DISSIPATED BY AN INCREASE IN THE MONEY SUPPLY WHICH CANNOT BE CONTAINED." HE WENT ON TO EXPLAIN THAT APPROPRIATE ACTION WOULD BE TAKEN IF NECESSARY TO CONTROL MONETARY GROWTH.

STREATOR

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Disposition Approved on Date:
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Disposition Remarks:
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